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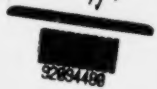
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For Quarter Ended February 29, 1992 Commission File No. 1-8066

DRECO ENERGY SERVICES LTD.
(Exact name of registrant as specified in its charter)

| Alberta, Canada | N/A |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3716 - 93 Street<br>Edmonton, Alberta, Canada<br>(Address of principal executive offices) | T6E 5N3<br>(Zip Code) |

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Registrant's telephone number, including area code (403) 463-2065

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

At March 27, 1992, there were outstanding 6,084,515 Class "A" Common Shares, without par value, of the registrant.

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## INTRODUCTORY STATEMENT

As used herein, the term "DESL" refers to Dreco Energy Services Ltd. and the term "Company" refers collectively to DESL and its subsidiaries, unless the context otherwise requires.

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

The following financial statements have been prepared from the Company's books and records without audit. In the opinion of the Company's management, all adjustments necessary for a fair presentation of such financial statements for the period indicated have been included. All such adjustments are of a normal recurring nature.

### Currency and Exchange Rate

Unless otherwise indicated, all dollar figures herein (including the financial statements) are expressed in United States dollars. Where amounts are expressed in Canadian dollars, the equivalent value of a Canadian dollar in United States dollars is based upon the noon buying rate for Canadian dollars as reported by the Federal Reserve Bank of New York. That rate was $0.8460 on February 28, 1992 and $0.8410 on March 25, 1992.

**DRECO ENERGY SERVICES LTD.**

**Consolidated Balance Sheets**
**As at February 29, 1992 and August 31, 1991**

(Unaudited)

(In thousands of United States dollars)

**ASSETS**

| | February 29, 1992 | August 31, 1991 |
|---|---|---|
| Current assets: | | |
| Cash | $ 5,496 | $ 1,836 |
| Accounts receivable | 10,437 | 10,849 |
| Unbilled revenues | 7,162 | 9,267 |
| Inventories | 7,318 | 6,913 |
| Prepaid expenses and other assets | 744 | 1,246 |
| | 31,157 | 30,111 |
| Property, plant and equipment | 17,578 | 16,989 |
| Other assets | 411 | 111 |
| | $49,146 | $47,211 |

The accompanying notes are an integral part of these financial statements.

**DRECO ENERGY SERVICES LTD.**

**Consolidated Balance Sheets**
**As at February 29, 1992 and August 31, 1991**

(Unaudited)

(In thousands of United States dollars)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

| | February 29, 1992 | August 31, 1991 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 4,581 | $ 5,202 |
| Accrued liabilities | | |
| Salaries and wages | 335 | 538 |
| Taxes and interest | 313 | 342 |
| Insurance and professional fees | 1,349 | 1,400 |
| Other liabilities | 1,279 | 631 |
| Current portion of long-term debt | 124 | 93 |
| | 7,981 | 8,206 |
| Long-term debt | 2,677 | 2,848 |
| | 10,658 | 11,054 |
| Contingencies and commitments | | |
| Shareholders' equity: | | |
| Class "A" common shares with no par value; 10,000,000 shares authorized | | |
| 6,084,515 shares (6,084,515 in 1991) issued and outstanding | 9,135 | 9,135 |
| Contributed surplus | 24,223 | 24,223 |
| Retained earnings | 3,949 | 485 |
| Translation adjustments | 1,181 | 2,314 |
| Total shareholders' equity | 38,488 | 36,157 |
| | $49,146 | $47,211 |

The accompanying notes are an integral part of these financial statements.

**DRECO ENERGY SERVICES LTD.**

**Consolidated Statements of Operations**
**For the Three Months Ended February 29, 1992 and February 28, 1991**

(Unaudited)

(In thousands of United States dollars except per share data)

| | Three Months Ended February | | Six Months Ended February | |
|---|---|---|---|---|
| | 29, 1992 | 28, 1991 | 29, 1992 | 28, 1991 |
| Revenues | $17,531 | $18,284 | $32,296 | $33,707 |
| Manufacturing and service costs | 13,320 | 13,475 | 23,880 | 24,833 |
| Income before other operating expenses | 4,211 | 4,809 | 8,416 | 8,874 |
| Other operating expenses: | | | | |
| Administration and marketing | 2,225 | 1,801 | 3,976 | 3,263 |
| Engineering and product development | 349 | 382 | 688 | 646 |
| Other income | (306) | (185) | (439) | (245) |
| Equity income | - | - | (300) | - |
| Depreciation | 871 | 750 | 1,606 | 1,376 |
| | 3,139 | 2,748 | 5,531 | 5,040 |
| Operating income | 1,072 | 2,061 | 2,885 | 3,834 |
| Financing income (expenses) (306) | 753 | (144) | 597 | |
| Income before income taxes | 1,825 | 1,917 | 3,482 | 3,528 |
| Income taxes | 748 | 690 | 1,354 | 1,270 |
| Recovery of income taxes | (747) | (677) | (1,336) | (1,211) |
| Net income for the period | $ 1,824 | $ 1,904 | $ 3,464 | $ 3,469 |
| Primary and fully diluted income per share | $ 0.30 | $ 0.33 | $ 0.57 | $ 0.66 |

The accompanying notes are an integral part of these financial statements.

**DRECO ENERGY SERVICES LTD.**

**Consolidated Statements of Changes in Cash**
**For the Six Months Ended February 29, 1992 and February 28, 1991**

(Unaudited)

(In thousands of United States dollars)

| | February 29, 1992 | February 28, 1991 |
|---|---|---|
| **CASH PROVIDED BY (USED IN) OPERATIONS** | | |
| Net income for the period | $3,464 | $3,469 |
| Charges to operations not requiring a current cash payment: | | |
| Depreciation | 1,606 | 1,376 |
| Gain on sale of property, plant and equipment | (436) | (159) |
| Equity income | (300) | - |
| Foreign exchange gain recognized on long-term debt | - | 62 |
| Revaluation of inventories | - | 300 |
| | 4,334 | 5,048 |
| Net change in working capital items: | | |
| Accounts receivable | (130) | (3,123) |
| Unbilled revenues | 1,809 | (3,249) |
| Inventories | (628) | (580) |
| Prepaid expenses and other assets | 477 | 573 |
| Accounts payable and accrued liabilities | (647) | 2,286 |
| Other liabilities | 650 | 4,281 |
| Cash provided by operations | 5,865 | 5,236 |
| **CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES** | | |
| Property, plant and equipment purchases | (3,008) | (2,725) |
| Proceeds from sale of fixed assets | 844 | 426 |
| | (2,164) | (2,299) |
| **CASH PROVIDED BY (USED IN) FINANCING ACTIVTIES** | | |
| Repayments of long-term debt | (41) | (4,462) |
| Net proceeds from issue of common stock | - | 8,959 |
| Public offering expenses | - | (500) |
| | (41) | 3,997 |
| Net increase in cash | 3,660 | 6,934 |
| CASH (BANK INDEBTEDNESS) AT BEGINNING OF PERIOD | 1,836 | (1,695) |
| CASH (BANK INDEBTEDNESS) AT END OF PERIOD | $5,496 | $5,239 |

Cash position comprises cash less short-term bank indebtedness.

The accompanying notes are an integral part of these financial statements.

**DRECO ENERGY SERVICES LTD.**

**Notes to the Consolidated Financial Statements**

(Unaudited)

1. INVENTORIES

| | February 29, 1992 | August 31, 1991 |
|---|---|---|
| | (In thousands of U.S. dollars) | |
| Raw materials | $3,043 | $2,660 |
| Work-in-process | 1,230 | 1,327 |
| Finished goods | 3,045 | 2,926 |
| | $7,318 | $6,913 |

2. INVESTMENT IN JOINT VENTURE

Long-term other assets include the Company's investment in a 75% owned Norwegian joint venture in the amount of $410,000 ($110,000 at August 31, 1991). This amount includes accumulated equity income of $300,000 (nil at August 31, 1991).

3. CONTINGENCIES AND COMMITMENTS

(a) Incidental to the business of the Company, the Company and one or more of its subsidiaries are parties to various lawsuits which allege negligence and liability for product failure or non-performance and claim damages arising therefrom. In management's opinion, to the extent the claims represented by any of these lawsuits are valid, they are either not material or are covered by insurance.

(b) At February 29, 1992, $9,670,000 ($5,037,000 at August 31, 1991) in letters of credit had been issued on behalf of the Company in connection with certain contracts and obligations. These letters of credit are released upon performance of the Company's contractual obligations under the letters of credit. Should the Company default in such performance, the Company will become liable for all or a portion of the outstanding letters of credit.

## 4. FINANCING EXPENSES

| | Three Months Ended February, | | Six Months Ended February, | |
|---|---|---|---|---|
| | 29, 1992 | 28, 1991 | 29, 1992 | 28, 1991 |
| | (In thousands of U.S. dollars) | | | |
| Interest expense: | | | | |
| Long-term debt | $ (76) | $(100) | $(164) | $(291) |
| Other | (11) | (42) | (31) | (97) |
| | (87) | (142) | (195) | (388) |
| Gain (loss) on foreign exchange | 722 | (132) | 581 | (73) |
| Interest income | 118 | 130 | 211 | 155 |
| Total financing income (expenses) | $ 753 | $(144) | $ 597 | $(306) |

## 5. INCOME PER SHARE

The income per share data is based upon the following number of shares:

(a) Primary income per share - 6,084,515 shares for the three months ended February 29, 1992 (5,738,595 in 1991) and 6,084,515 shares for six months ended February 29, 1992, (5,213,901 in 1991) being the weighted average number of shares outstanding during the periods.

(b) Fully diluted income per share includes NIL (37,500 in 1991) shares that could be issued pursuant to the exercise of outstanding options.

The weighted average number of shares outstanding on a fully diluted basis is 6,084,515 shares for the three months ended February 29, 1992 (5,776,095 in 1991) and 6,084,515 shares for the six months ended February 29, 1992 (5,251,401 in 1991).

**DRECO ENERGY SERVICES LTD.**

**Notes to the Consolidated Financial Statements**

(Unaudited)

6. RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Under United States Generally Accepted Accounting Principles ("US GAAP"), the recoveries of income taxes which are reported in the Consolidated Statements of Operations through the utilization of losses that occurred prior to a reorganization would be credited directly to contributed surplus. The effects of this difference from Canadian Generally Accepted Accounting Principles ("Cdn GAAP") are as follows:

Consolidated Statements of Operations and Retained Earnings

| | February 29, 1992 | February 28, 1991 |
|---|---|---|
| | (In thousands of U.S. dollars, except per share data) | |
| **Cdn GAAP** | | |
| Income before income taxes | $ 3,482 | $ 3,528 |
| Income taxes | 1,354 | 1,270 |
| Recovery of income taxes | (1,336) | (1,211) |
| Net income for the period | 3,464 | 3,469 |
| Retained earnings (deficit) at beginning of the period | 485 | (6,417) |
| Public offering expenses | - | (500) |
| Retained earnings (deficit) at end of the period | $ 3,949 | $(3,448) |
| Primary and fully diluted income per share | $ 0.57 | $ 0.66 |
| **US GAAP** | | |
| Income before income taxes | $ 3,482 | $ 3,528 |
| Income taxes | 1,354 | 1,270 |
| Recovery of income taxes | (1,160) | (462) |
| Net income for the period | 3,288 | 2,720 |
| Deficit at beginning of the period | (1,677) | (7,363) |
| Public offering expenses | - | (500) |
| Retained Earnings (deficit) at end of the period | $ 1,611 | $(5,143) |
| Primary and fully diluted income per share | $ 0.54 | $ 0.52 |

**DRECO ENERGY SERVICES LTD.**

**Notes to the Consolidated Financial Statements**

(Unaudited)

Consolidated Balance Sheets

| | February 29, 1992 | February 28, 1991 |
|---|---|---|
| | (In thousands of U.S. dollars) | |
| **Cdn GAAP** | | |
| Shareholders' equity: | | |
| Share capital | $ 9,135 | $ 9,097 |
| Contributed surplus | 24,223 | 24,218 |
| Retained earnings (deficit) | 3,949 | (3,448) |
| Translation adjustments | 1,181 | 2,084 |
| | $38,488 | $31,951 |
| **US GAAP** | | |
| Shareholders' equity: | | |
| Share capital | $ 9,135 | $ 9,097 |
| Contributed surplus | 26,561 | 25,913 |
| Retained earnings (deficit) | 1,611 | (5,143) |
| Translation adjustments | 1,181 | 2,084 |
| | $38,488 | $31,951 |

7. RELATED PARTY TRANSACTIONS

At February 29, 1992, the Company had outstanding a loan to a director and officer of the Company in the amount of $596,229 (Canadian) ($587,228 (Canadian) at August 31, 1991). Under the terms of a loan agreement which allows the director and officer to borrow up to $600,000 (Canadian), the loan bears no interest, is to be repaid by August 31, 1992, and is secured by 125,000 shares of the Company.

## Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

### Liquidity and Capital Resources

For the six months ended February 29, 1992, the Company's operations generated a cash flow of $4,334,000 before changes in working capital, investing activities and financing activities, compared to $5,048,000 for the six months ended February 28, 1991, a decrease of $714,000. While net income for the period approximated net income for the corresponding period of the previous fiscal year, cash flow from operations in the current period was reduced by a number of charges to operations not requiring cash payments.

Changes in working capital items increased cash flow by $1,531,000 to $5,865,000 for the six months ended February 29, 1992, as compared to an increase of $188,000 to $5,236,000 in the comparable period of the prior fiscal year. The increase in cash flow during the current period was primarily as a result of a greater proportion of contracts with payment terms based upon progress payments. The mix of contracts performed by the Company and, hence, cash flow to the Company, can change from year to year depending on the payment terms that can be negotiated with customers.

The Company incurred capital expenditures of $3,008,000 for the six months ended February 29, 1992, compared to $2,725,000 in the same period of the prior fiscal year. Capital expenditures for the six months ended February 29, 1992 were $381,000 in the drilling and well servicing equipment segment and $2,627,000 in the downhole products segment as compared to $282,000 and $2,443,000 respectively in the corresponding period of the prior fiscal year. Proceeds from the sale of fixed assets were $844,000 during the period compared to $426,000 in the corresponding period of the prior fiscal year and were primarily realized from recoveries in respect of downhole products lost or abandoned by customers during drilling operations.

The Company reduced its long-term debt by $41,000 during the six months ended February 29, 1992 compared to $4,462,000 during the corresponding period of the prior fiscal year. During the corresponding period of the prior fiscal year the Company used $3,756,000 of the proceeds from its public offering to reduce long-term debt. In addition, long-term debt was further reduced by $706,000 from payments upon maturities. The repayment of long-term debt in fiscal 1991 in advance of the required maturities reduced the principal payments required to be made by the Company in respect of its long-term debt in the current fiscal year.

During the six months ended February 29, 1992, the Company entered into a new operating line of credit facility which increased the operating line of credit to $16,920,000 ($20,000,000 Canadian), subject to a borrowing base formula applied to the Company's levels of cash, accounts receivable, unbilled revenues, and inventories. At February 29, 1992, the Company had no outstanding cash borrowings under its operating line of credit facility, and had issued letters of credit to its customers in the amount of $9,670,000 against the facility, which reduced the amount available for borrowing under the facility to $7,250,000. These letters of credit are released upon performance of the Company's contractual obligations to its customers. At August 31, 1991, the Company had outstanding cash borrowings of $144,000 and had issued letters of credit to its customers in the amount of $5,037,000 which reduced the amount available for borrowing under its previous operating line of credit facility to $5,221,000.

At February 29 1992, the Company's working capital was $23,176,000 and its current ratio was 3.9:1 as compared to working capital of $21,905,000 and a current ratio of 3.6:1 at August 31, 1991.

Based upon the funds generated from operations and the amounts available under the Company's existing credit facilities, the Company believes that it will have sufficient funds to meet its cash requirements for the balance of the fiscal year ending August 31, 1992.

**Results of Operations**

***Revenues***

Revenues for the six months ended February 29, 1992 were $32,296,000, a decrease of $1,411,000 (4.2%) from the corresponding period of the prior fiscal year. The drilling and well servicing equipment segment accounted for $25,242,000 of the revenues, an increase of $355,000 from the previous year; the downhole products segment accounted for $6,680,000 of the revenues, a decrease of $1,763,000 from the previous year; and the general metal fabrication segment accounted for $374,000 of the revenues, a decrease of $3,000 from the previous year.

Revenues for the quarter ended February 29, 1992 were $17,531,000, a decrease of $753,000 (4.1%) from the corresponding quarter of the prior fiscal year. The drilling and well servicing equipment segment accounted for $14,365,000 of the revenues, an increase of $805,000 from the previous year; the downhole products segment accounted for $2,988,000 of the revenues, a decrease of $1,653,000 from the previous year, and the general metal fabrication segment accounted for $178,000 of the revenues, an increase of $95,000 from the previous year.

The increase in revenues in the drilling and well servicing equipment segment reflects increased revenues from contracts with a greater than normal proportion of components manufactured by others, the effect of which was partially offset by lower utilization of manufacturing capacity in the segment. The decrease in revenues in the downhole products segment reflects decreased activity levels in the Austin Chalk formation in Texas where the Company's downhole drilling motors are rented and decreased drilling activity in Canada where the Company rents its downhole drilling motors and specialized drilling tools. This decrease in North American revenues was partially offset by increased revenues from the Company's downhole products rented and sold outside North America.

***Income Before Other Operating Expenses***

For the six months ended February 29, 1992, income before other operating expenses decreased $458,000 (5.2%) and, as a percentage of revenues, was 26.1%, compared to 26.3% in the corresponding period of the prior fiscal year. For the quarter ended February 29, 1992, income before other operating expenses decreased $598,000 (12.4%) and as a percentage of revenues, was 24.0%, compared to 26.3% in the corresponding quarter of the prior fiscal year. The decreases principally resulted from a larger proportion of the Company's revenues being generated from the Company's drilling and well servicing equipment segment, which revenues generally have lower profitability levels than the Company's downhole products segment, and from decreased profitability levels in the Company's downhole products segment.

***Other Operating Expenses***

For the six months ended February 29, 1992, administration and marketing expenses increased $713,000 (21.9%) and for the quarter ended February 29, 1992, increased $424,000 (23.5%) from the corresponding periods of the prior fiscal year. This resulted primarily from higher staffing and salary levels.

For the six months ended February 29, 1992, engineering and product development expenses increased $42,000 (6.5%) and for the quarter ended February 28, 1992, decreased $33,000 (8.6%) from the corresponding periods of the prior fiscal year. The fluctuations principally resulted from varying levels of engineering and product development expenses being incurred for the development of new products during these periods which are charged to other operating expenses, and expenses associated with a particular customer order which are charged to manufacturing and service costs.

For the six months ended February 29, 1992, other income increased $194,000 to $439,000 and for the quarter ended February 29, 1992, increased $121,000 to $306,000 from the corresponding periods of the prior fiscal year. Principally, other income results from the gain on disposition of the Company's downhole

products lost or abandoned by customers during drilling operations. As these are random occurrences the level of other income can fluctuate from one quarter to another.

The six months ended February 29, 1992, includes $300,000 of equity income realized by the Company from its 75% interest in Hitec-Dreco A.S., its Norwegian joint venture.

For the six months ended February 29, 1992 depreciation expense increased $230,000 (16.7%) and for the quarter ended February 29, 1992 increased $121,000 (16.1%) from the corresponding periods of the prior fiscal year. These increases are primarily the result of the increase in the size of the Company's fleet of downhole products for rent.

***Financing Income***

As a result of decreased interest expense caused by lower debt levels, increased interest income from higher levels of funds available for investment, and increased foreign exchange gains, income from financing activities increased $903,000 to $597,000 from the corresponding six months of the prior fiscal year and $897,000 to $753,000 from the corresponding quarter of the prior fiscal year.

***Net Income***

As a result of the factors described above, the net income of the Company for the six months ended February 29, 1992 was $3,464,000 or $0.57 per share, compared to $3,469,000 or $0.66 per share in the corresponding period of the prior fiscal year.

Net income of the Company for the quarter ended February 29, 1992 was $1,824,000 or $0.30 per share, as compared to $1,904,000 or $0.33 per share in the corresponding period of the prior fiscal year.

The Company has utilized all of its Canadian tax losses carried forward from previous years. During the six months ended February 29, 1992, the Company earned approximately $2,400,000 in Canada. Any future earnings generated in Canada will incur taxes at applicable Canadian rates.

***Backlog***

The Company's backlog at February 29, 1992 was $14,709,000, compared to $10,421,000 at August 31, 1991 and $29,253,000 at February 28, 1991. The Company's backlog is dependent upon the Company's ability to secure new contracts, most of which are competitively bid. Backlog does not include anticipated future revenues from the rental of downhole products.

**Business Outlook**

Revenues generated during the first six months of the current fiscal year from drilling motors rented in the Austin Chalk have declined in excess of 40% from the levels in the comparable period in the prior fiscal year. Also, during the current period the activity levels varied considerably. The Company is therefore uncertain about future drilling motor utilization in the United States, although it does not anticipate revenues in each of the third and fourth quarters of fiscal 1992 from its United States drilling motor rental fleet to exceed the level of revenues from the fleet in the second quarter of the fiscal year.

Drilling activity in Canada has also declined during the first six months of the current fiscal year from the comparable period in the prior fiscal year. Consequently, rental revenues from downhole products rented in Canada during this period have also declined. Activity levels in the second half of each fiscal year have traditionally been lower.

Although international sales and rental revenues from downhole products have more than doubled from the first six months of fiscal 1991, this growth has not been of a magnitude to offset the decline in revenues in North America. The Company continues to pursue opportunities outside North America for its downhole products.

The Company's 75% owned Norwegian subsidiary has submitted several tenders for North Sea platform drilling rigs. The Company also continues to receive enquiries and invitations to bid in connection with a number of opportunities in other international markets.

During the quarter, the Company entered into a contract with a Russian research institute which licenses the Company on a non-exclusive basis to manufacture a patented drilling motor rotor. This unique, light weight rotor is expected to reduce repair and maintenance costs in several applications.

## PART II - OTHER INFORMATION

Item 1 Legal Proceedings

As previously reported, on January 9, 1991 a mast supplied by the Company detached during testing and fell from an offshore platform. The Company's investigations into this occurrence, and the extent to which the damages suffered by the Company and allegedly by its customer are covered by the Company's insurance, have been ongoing since that time.

On January 3, 1992, the Company's customer commenced legal proceedings in the United States District Court, Eastern District

On January 3, 1992, the Company's customer commenced legal proceedings in the United States District Court, Eastern District of Louisiana against the Company and its liability insurers claiming damages of $10 million plus attorney's fees and costs.

The Company intends to defend this claim vigorously. To the extent this claim might be adjudicated to be valid, the Company believes that the alleged damages are covered by insurance or are not material to the Company.

Item 5 Other Information

*Net Operating Loss Carryforwards*

As of February 29, 1992, two U.S. subsidiaries of the Company, Dreco, Inc. and Kremco Inc., had U.S. federal income tax net operating loss ("NOL") carryforwards, respectively, of approximately $48,000,000 and $8,000,000, most of which expire between 1998 and 2005. The value of any NOL carrryforwards depends on the ability of Dreco, Inc. and Kremco Inc. to generate U.S. federal taxable income. In addition, for alternative minimum tax purposes, only 90% of U.S. federal taxable income in any given year may be offset against such carryforwards.

The availability of these carryforwards to reduce future U.S. federal taxable income of Dreco, Inc. and Kremco Inc. is subject to various limitations under the Internal Revenue Code of 1986, as amended (the "Code"). In particular, the utilization of such carryforwards would be severely restricted upon the occurrence of certain changes (such as the issuance or exercise of rights to acquire stock, the purchase or sale of stock by 5% shareholders (as defined in Treasury Regulations), and the offering of stock by the Company), in each case during any three-year period resulting in a more than 50% aggregate change ("Ownership Change") in the beneficial ownership of the Company.

In the event of an Ownership Change, Section 382 of the Code imposes an annual limitation on the amount of a corporation's taxable income that can be offset by its NOL carryforwards. This limitation is generally expressed as an amount equal to the product of (i) the fair market value of the equity of the corporation (Dreco, Inc. or Kremco Inc. in this situation), and (ii) a percentage approximately equivalent to the yield on long-term tax-exempt bonds during the month in which the Ownership Change occurs. For these purposes, the fair market value of the equity of either or both of Dreco, Inc. and Kremco Inc. may be determined to be a nominal amount.

Although no assurance can be made, the Company believes that consummation of its 1990 public offering, together with any applicable changes of ownership in the past three years, resulted in a change in the beneficial ownership of the Company of approximately 43% and that the change in ownership limitations set forth in Section 382 of the Code would, therefore, not apply.

However, because the existence of a change in ownership under Section 382 is, in part, a question of fact, no opinion of counsel has been received or requested with respect thereto. Equity transactions after the date hereof by the Company or by 5% shareholders (including relatively small transactions and transactions beyond the Company's control) could cause these limitations to eventually become applicable to the Company. As the Company currently desires to avoid triggering these limitation rules, it will be restricted in its ability to issue stock options or rights for any purposes (including employee compensation) and to raise additional capital through the issuance of new equity securities, including securities convertible into its equity securities. Frederick W. Pheasey, the Chairman of the Board and a principal shareholder of the Company, has agreed with the Company not to sell or otherwise dispose of any shares of common stock prior to April 30, 1992.

Item 6 Exhibits and Reports on Form 8-K.

(a) Exhibits

10.32 Amending Agreement, dated as of August 31, 1991, between Dreco Energy Services Ltd., The Dreco Group of Companies Ltd., Dreco Holdings Ltd., Dreco Holdings Inc., Dreco, Inc. and Kremco Inc., and Royal Bank of Canada.

10.33 Collateral Security Agreement, dated as of August 31, 1991, by Dreco Energy Services Ltd. in favour of Royal Bank of Canada.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the Company's quarter ended February 29, 1992.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DRECO ENERGY SERVICES LTD.
(Registrant)

Date: March 27, 1992

By _____
F.L. Kobie

President and
Chief Executive Officer

Date: March 27, 1992

By _____
D.W. Fenko

Vice President, Finance,
Chief Financial Officer and
Treasurer

**EXHIBIT 10.32**

## AMENDING AGREEMENT

WHEREAS Royal Bank of Canada (the "Lender"), Dreco Energy Services Ltd. (the "Borrower") and The Dreco Group of Companies Ltd., Dreco Holdings Ltd., Dreco Holdings Inc., Dreco, Inc. and Kremco Inc. (the "Dreco Subsidiaries") executed a credit agreement (the "Credit Agreement") dated as of August 30, 1991 whereby, among other things, the Lender agreed to advance monies to the Borrower and Dreco, Inc. pursuant to a credit facility in the aggregate principal sum of Cdn. $20,000,000 upon certain terms and subject to certain conditions;

AND WHEREAS the Lender, the Borrower and the Dreco Subsidiaries wish to make certain amendments to the Credit Agreement;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Lender, the Borrower and the Dreco Subsidiaries hereby covenant and agree as follows:

### ARTICLE 1 - AMENDMENTS TO CREDIT AGREEMENT

1.1 The Lender, the Borrower and the Dreco Subsidiaries hereby agree that the Credit Agreement shall be amended in the manner described in Article 1 of this agreement.

1.2 Section 1.1 of the Credit Agreement is hereby amended by adding after Section 1.1(w) the following provisions:

"(w-1) "Excluded Prepayment Letter of Credit" means a Prepayment Letter of Credit which is designated in writing by the Lender as an Excluded Prepayment Letter of Credit in accordance with Section 7.6 of this Agreement;

(w-2) "Excluded Prepayment Letter of Guarantee" means a Prepayment Letter of Guarantee which is designated in writing by the Lender as an Excluded Prepayment Letter of Guarantee in accordance with Section 8.6 of this Agreement;"

1.3 Section 1.1 of the Credit Agreement is hereby amended by adding after Section 1.1(mm) the following provisions:

"(mm-1) "Prepayment Letter of Credit" means a Letter of Credit issued to secure a Member's obligation to repay, in certain circumstances, advance payments received by such Member from a customer in respect of a contract to provide services and products to such customer;

(mm-2) "Prepayment Letter of Guarantee" means a Letter of Guarantee issued to secure a Member's obligation to repay, in certain circumstances, advance payments received by such Member from a customer in respect of a contract to provide services and products to such customer;"

1.4 Section 1.1 of the Credit Agreement is hereby amended by adding after Section 1.1(xx) the following provision:

"(xx-1) "Unperformed Work Value" means, with respect to any given Prepayment Letter of Credit or Prepayment Letter of Guarantee, that amount at any given time which is calculated in the following manner:

(i) if, at such given time, no work has been performed by the Member who is obligated to perform the work under the contract in respect of which such Prepayment Letter of Credit or such Prepayment Letter of Guarantee is to be, or has been, issued, then the amount of the "Unperformed Work Value" applicable to such Prepayment Letter of Credit or such Prepayment Letter of Guarantee shall be the face amount of such Prepayment Letter of Credit or such Prepayment Letter of Guarantee; or

(ii) if, at such given time, some work has been performed by the Member who is obligated to perform the work under the contract in respect of which such Prepayment Letter of Credit or such Prepayment Letter of Guarantee is to be, or has been, issued and if the value of such work is less than the face amount of such Prepayment Letter of Credit or such Prepayment Letter of Guarantee, then the amount of the "Unperformed Work Value" applicable to such Prepayment Letter of Credit or such Prepayment Letter of Guarantee shall be an amount equal to the difference between the face amount of such Prepayment Letter of Credit or such Prepayment Letter of Guarantee and the value of the work performed under such contract; or

(iii) if, at such given time, some work has been performed by the Member who is obligated to perform the work under the contract in respect of which such Prepayment Letter of Credit or such Prepayment Letter of Guarantee is to be, or has been, issued and if the value of such work is equal to or more than the face amount of such Prepayment Letter of Credit or such

Prepayment Letter of Guarantee, then the amount of the "Unperformed Work Value" applicable to such Prepayment Letter of Credit or such Prepayment Letter of Guarantee shall be NIL;"

1.5 Section 2.4(a) of the Credit Agreement is hereby amended by deleting the words "revolving term credit facility" from the third line of Section 2.4(a) and by replacing such deleted words with the words "revolving operating credit facility".

1.6 Section 2.6 of the Credit Agreement is hereby amended by adding after Section 2.6(a) the following provision:

"(a-1) "Consolidated Cash" means the aggregate amount of the cash collateral which has been deposited by the Borrower or Dreco, Inc. or both, as the case may be, with the Lender and which has been hypothecated and pledged in favour of the Lender pursuant to the documents described in Section 11.1(i) of this Agreement;"

1.7 Section 2.6 of the Credit Agreement is hereby amended by adding after Section 2.6(c) the following provisions:

"(c-1) "Non-Segregated Cash" means that portion of the Consolidated Cash which is not Segregated Cash, it being acknowledged that, for greater certainty, the "Non-Segregated Cash" shall include any portion of the Consolidated Cash which has been segregated and set aside in one or more separate bank accounts by the Lender in accordance with Section 7.7(b) or Section 8.7(b) of this Agreement;

(c-2) "Segregated Cash" means that portion of the Consolidated Cash which, pursuant to the written request of the Borrower, has been segregated and set aside in one or more separate bank accounts by the Lender and which is not available for withdrawal by the Borrower (subject to Section 15.5 of this Agreement) until the Lender receives written notice from the Borrower that it no longer wishes to segregate such portion of the Consolidated Cash, it being acknowledged that, for greater certainty, the "Segregated Cash" shall not include any portion of the Consolidated Cash which is segregated and set aside in one or more separate bank accounts by the Lender in accordance with Section 7.7(b) or Section 8.7(b) of this Agreement;".

1.8 Section 2.6(c) of the Credit Agreement is hereby amended by adding at the end of Section 2.6(c) the words "together with 100% of the Segregated Cash and 100% of the

Non-Segregated Cash up to a maximum amount of Non-Segregated Cash equal to the lesser of the following amounts:

(i) the sum of U.S. $8,000,000 (or the Equivalent Amount thereof in Canadian Dollars) or such greater sum as the Lender may approve in writing; or

(ii) the aggregate amount of all issued and outstanding Excluded Prepayment Letters of Credit and Excluded Prepayment Letters of Guarantee or such greater amount as the Lender may approve in writing; and"

1.9 Section 5.3 of the Credit Agreement is hereby amended by adding after the word "Lender" in the seventh line of Section 5.3 the words "or fails to satisfy all of the conditions precedent applicable to such Conversion or Rollover".

1.10 Section 6.3 of the Credit Agreement is hereby amended by adding after the word "Lender" in the sixth line of Section 6.3 the words "or fails to satisfy all of the conditions precedent applicable to such Conversion or Rollover".

1.11 Section 7.5 of the Credit Agreement is hereby deleted and replaced with the following:

"Section 7.5 - Maximum Amount

Notwithstanding any other provision of this Agreement, the aggregate amount of all outstanding Letters of Credit and Letters of Guarantee (after subtracting the aggregate amount of all outstanding Excluded Prepayment Letters of Credit and Excluded Prepayment Letters of Guarantee) shall not, at any time, exceed the sum of U.S. $12,000,000 (or the Equivalent Amount thereof in Canadian Dollars) without the prior written consent of the Lender.

1.12 Article 7 of the Credit Agreement is hereby amended by adding after Section 7.5 the following provisions:

"Section 7.6 - Designation as Excluded Prepayment Letters of Credit

Upon the Lender receiving from the Borrower a written request to designate a Prepayment Letter of Credit as an Excluded Prepayment Letter of Credit (which request may be delivered before or after the issuance of such Prepayment Letter of Credit) and upon the satisfaction of the conditions described below with respect to such Prepayment Letter of

Credit, the Lender shall deliver to the Borrower written confirmation that such Prepayment Letter of Credit has been designated as an Excluded Prepayment Letter of Credit. The conditions which must be satisfied in order to designate such Prepayment Letter of Credit as an Excluded Prepayment Letter of Credit are as follows:

(a) the Lender shall be satisfied that, immediately following such designation, the aggregate Borrowings outstanding under this Agreement shall not be in excess of the lesser of the Margin Limit or the sum of Cdn. $20,000,000 (or the Equivalent Amount thereof in U.S. Dollars);

(b) upon the request of the Lender (such request being within the Lender's absolute and unfettered discretion), the Dreco Group or one or more of its Members, as the case may be, shall place and maintain "wrongful call insurance" issued by the Export Development Corporation (or some other issuer acceptable to the Lender) in respect of such Prepayment Letter of Credit in favour of the Lender in an amount and upon terms and conditions which are satisfactory to the Lender acting reasonably;

(c) the term (or the unexpired portion of the term) of such Prepayment Letter of Credit shall not exceed one year; and

(d) as at the date of such designation and throughout the term of such Excluded Prepayment Letter of Credit, the Non-Segregated Cash shall equal or exceed the Unperformed Work Value (if any) applicable to such Excluded Prepayment Letter of Credit plus the aggregate amount of the Unperformed Work Value applicable to all of the other issued and outstanding Excluded Prepayment Letters of Credit and Excluded Prepayment Letters of Guarantee.

Section 7.7 - Monthly Reports as to Excluded Prepayment Letters of Credit

During the time period that one or more Excluded Letters of Credit is issued and outstanding, the following terms and conditions shall be applicable:

(a) each Member who is obligated to perform the work under the contract in respect of which an Excluded Prepayment Letter of Credit has been issued shall prepare and deliver or cause to be prepared and delivered to the Lender, within 10 Banking Days from the beginning of each calendar month and in respect of the immediately preceding calendar month, a certificate of an officer of the Borrower substantially in the form attached as Schedule "N" to this

Agreement and certifying the status of such contract, the face amount of such contract, the value of the work performed by such Member in respect of such contract as at the end of such immediately preceding calendar month, the value of the work performed by such Member during such immediately preceding calendar month, the Unperformed Work Value (if any) applicable to such Excluded Prepayment Letter of Credit as at the end of such immediately preceding calendar month, the estimated date of completion of such contract and any other information with respect to such contract that the Lender may reasonably request;

(b) at any time during such time period, the Lender shall have the right to segregate and set aside in one or more separate bank accounts (but only to the extent not already segregated and set aside pursuant to Section 8.7(b) of this Agreement) all or any part of that portion of the Consolidated Cash equal to the greater of the following amounts:

(i) the aggregate amount of the Unperformed Work Value applicable to all issued and outstanding Excluded Prepayment Letters of Credit and Excluded Prepayment Letters of Guarantee; or

(ii) the amount (if any) by which the aggregate Borrowings in Canadian Dollars outstanding under this Agreement exceeds the Margin Limit (after excluding 100% of the Non-Segregated Cash from the Margin Limit);

and, subject to Section 7.7(d) of this Agreement, neither the Borrower nor any other Member shall have the right to withdraw such portion of the Consolidated Cash segregated and set aside in such bank account or bank accounts without the prior written consent of the Lender;

(c) the Lender's right described in Section 7.7(b) of this Agreement shall be:

(i) exercisable in the Lender's absolute and unfettered discretion; and

(ii) exercisable contemporaneously with or immediately following the delivery by the Lender to the Borrower of written notice that the Lender has exercised or intends to exercise such right; and

(d) in circumstances where the Lender has exercised the right described in Section 7.7(b) of this Agreement and where the Borrower and Dreco, Inc. are in

compliance with Section 2.5 of this Agreement, the Lender shall release from such portion of the Consolidated Cash segregated and set aside in such bank account or bank accounts in respect of each Excluded Prepayment Letter of Credit, within two Banking Days following receipt of each officer's certificate described in Section 7.7(a) of this Agreement, monies in an amount equal to the value of the work performed by such Member under the contract applicable to such Excluded Prepayment Letter of Credit during the immediately preceding calendar month in respect of which such officer's certificate is applicable."

1.13 Section 8.5 of the Credit Agreement is hereby deleted and replaced with the following:

"Section 8.5 - Maximum Amount

Notwithstanding any other provision of this Agreement, the aggregate amount of all outstanding Letters of Credit and Letters of Guarantee (after subtracting the aggregate amount of all outstanding Excluded Prepayment Letters of Credit and Excluded Prepayment Letters of Guarantee) shall not, at any time, exceed the sum of U.S. $12,000,000 (or the Equivalent Amount thereof in Canadian Dollars) without the prior written consent of the Lender.

1.14 Article 8 of the Credit Agreement is hereby amended by adding after Section 8.5 the following provisions:

"Section 8.6 - Designation as Excluded Prepayment Letters of Guarantee

Upon the Lender receiving from the Borrower a written request to designate a Prepayment Letter of Guarantee as an Excluded Prepayment Letter of Guarantee (which request may be delivered before or after the issuance of such Prepayment Letter of Guarantee) and upon the satisfaction of the conditions described below with respect to such Prepayment Letter of Guarantee, the Lender shall deliver to the Borrower written confirmation that such Prepayment Letter of Guarantee has been designated as an Excluded Prepayment Letter of Guarantee. The conditions which must be satisfied in order to designate such Prepayment Letter of Guarantee as an Excluded Prepayment Letter of Guarantee are as follows:

(a) the Lender shall be satisfied that, immediately following such designation, the aggregate Borrowings outstanding under this Agreement shall not be in excess of the lesser of the Margin Limit or the sum of Cdn. $20,000,000 (or the Equivalent Amount thereof in U.S. Dollars);

(b) upon the request of the Lender (such request being within the Lender's absolute and unfettered discretion), the Dreco Group or one or more of its Members, as the case may be, shall place and maintain "wrongful call insurance" issued by the Export Development Corporation (or some other issuer acceptable to the Lender) in respect of such Prepayment Letter of Guarantee in favour of the Lender in an amount and upon terms and conditions which are satisfactory to the Lender acting reasonably;

(c) the term (or the unexpired portion of the term) of such Prepayment Letter of Guarantee shall not exceed one year; and

(d) as at the date of such designation and throughout the term of such Excluded Prepayment Letter of Guarantee, the Non-Segregated Cash shall equal or exceed the Unperformed Work Value (if any) applicable to such Excluded Prepayment Letter of Guarantee plus the aggregate amount of the Unperformed Work Value applicable to all of the other issued and outstanding Excluded Prepayment Letters of Guarantee and Excluded Prepayment Letters of Credit.

Section 8.7 - Monthly Reports as to Excluded Prepayment Letters of Guarantee

During the time period that one or more Excluded Letter of Guarantee is issued and outstanding, the following terms and conditions shall be applicable:

(a) each Member who is obligated to perform the work under the contract in respect of which an Excluded Prepayment Letter of Guarantee has been issued shall prepare and deliver or cause to be prepared and delivered to the Lender, within 10 Banking Days from the beginning of each calendar month and in respect of the immediately preceding calendar month, a certificate of an officer of the Borrower substantially in the form attached as Schedule "N" to this Agreement and certifying the status of such contract, the face amount of such contract, the value of the work performed by such Member in respect of such contract as at the end of such immediately preceding calendar month, the value of the work performed by such Member during such immediately preceding calendar month, the Unperformed Work Value (if any) applicable to such Excluded Prepayment Letter of Guarantee as at the end of such immediately preceding calendar month, the estimated date of completion of such contract and any other information with respect to such contract that the Lender may reasonably request;

(b) at any time during such time period, the Lender shall have the right to segregate and set aside in one

or more separate bank accounts (but only to the extent not already segregated and set aside pursuant to Section 7.7(b) of this Agreement) all or any part of that portion of the Consolidated Cash equal to the greater of the following amounts:

(i) the aggregate amount of the Unperformed Work Value applicable to all issued and outstanding Excluded Prepayment Letters of Guarantee and Excluded Prepayment Letters of Credit; or

(ii) the amount (if any) by which the aggregate Borrowings in Canadian Dollars outstanding under this Agreement exceeds the Margin Limit (after excluding 100% of the Non-Segregated Cash from the Margin Limit);

and, subject to Section 8.7(d) of this Agreement, neither the Borrower nor any other Member shall have the right to withdraw such portion of the Consolidated Cash segregated and set aside in such bank account or bank accounts without the prior written consent of the Lender;

(c) the Lender's right described in Section 8.7(b) of this Agreement shall be:

(i) exercisable in the Lender's absolute and unfettered discretion; and

(ii) exercisable contemporaneously with or immediately following the delivery by the Lender to the Borrower of written notice that the Lender has exercised or intends to exercise such right; and

(d) in circumstances where the Lender has exercised the right described in Section 8.7(b) of this Agreement and where the Borrower and Dreco, Inc. are in compliance with Section 2.5 of this Agreement, the Lender shall release from such portion of the Consolidated Cash segregated and set aside in such bank account or bank accounts in respect of each Excluded Prepayment Letter of Guarantee, within two Banking Days following receipt of each officer's certificate described in Section 8.7(a) of this Agreement, monies in an amount equal to the value of the work performed by such Member under the contract applicable to such Excluded Prepayment Letter of Guarantee during the immediately preceding calendar month in respect of which such officer's certificate is applicable."

1.15 Section 11.1 of the Credit Agreement is amended by adding after Section 11.1(h) the following provision:

"(i) collateral security agreements substantially in the Lender's standard form 610 (or such other form as the Lender may reasonably request) pledging and hypothecating in favour of the Lender the Consolidated Cash."

1.16 Section 15.4 of the Credit Agreement is hereby deleted and replaced with the following:

"Section 15.4 - Set-off

In addition to any rights and remedies now or hereafter granted under applicable law and not by way of limitation of any such rights, the Lender is hereby authorized, upon the occurrence of an Event of Default and the failure of the Defaulting Member to remedy such Event of Default prior to the expiration of the applicable grace period (if any) and upon the delivery of written notice to the Defaulting Member, to set-off and to appropriate and to apply any and all deposits (general and special) and any other indebtedness at any time held by or owing by the Lender to or for the credit of or the account of any Member including, without limitation, the Consolidated Cash against and on account of the obligations and liabilities of such Defaulting Member to the Lender under this Agreement including, without limitation, all claims of any nature or description arising out of or connected with this Agreement, irrespective of whether or not the Lender has made any demand under this Agreement and even though such obligations, liabilities or claims of such Defaulting Member or any of them are contingent or unmatured. The set-off rights described in this Section 15.4 are separate from and in addition to the rights and remedies available to the Lender under or pursuant to the Security. The Lender shall advise any Member of the exercise of any set-off rights pursuant to this Section 15.4 immediately after the exercise of such rights."

1.17 Section 15.5 of the Credit Agreement is hereby amended by:

(a) deleting the first line of Section 15.5 and by replacing such deleted line with the words "Subject to Sections 7.7 and 8.7 of this Agreement, upon the occurrence of an Event of Default and the failure of the Defaulting Member to remedy such Event of Default prior to the expiration of the applicable grace period (if any),"; and

(b) deleting the word "mounts" in the third last line of Section 15.5 and by replacing such deleted word with the word "amounts".

1.18 The Credit Agreement is hereby amended by adding as Schedule "N" the schedule attached to this agreement and marked as "Schedule "N" to Credit Agreement".

**ARTICLE 2 - EFFECT OF AGREEMENT**

2.1 The amendments to the Credit Agreement set out in this agreement shall be effective as of August 30, 1991.

2.2 Notwithstanding the execution and delivery of this agreement, the Security (as defined in the Credit Agrement) shall continue in full force and effect and the Borrower and the Dreco Subsidiaries hereby ratify and confirm the same.

2.3 Other than as provided in this agreement, the Credit Agreement shall remain unamended and in full force and effect and the Lender, the Borrower and the Dreco Subsidiaries hereby ratify and confirm the same.

**ARTICLE 3 - MISCELLANEOUS PROVISIONS**

3.1 This agreement shall be governed by and interpreted in accordance with the laws of the Province of Alberta, including the laws of Canada applicable therein.

3.2 The headings used in this agreement are inserted for the sake of convenience only and shall not be used in the construction or interpretation of this agreement.

**ARTICLE 4 - EXECUTION**

4.1 The Lender, the Borrower and the Dreco Subsidiaries have executed this agreement as of the 30th day of August, 1991.

ROYAL BANK OF CANADA

PER: _____

PER: _____

DRECO ENERGY SERVICES LTD.

PER: _____

PER: _____
(affix corporate seal)

THE DRECO GROUP OF COMPANIES LTD.

PER: _____

PER: _____
(affix corporate seal)

DRECO HOLDINGS LTD.

PER: _____

PER: _____
(affix corporate seal)

DRECO HOLDINGS INC.

PER: _____

PER: _____
(affix corporate seal)

DRECO, INC.

PER: _____

PER: _____
(affix corporate seal)

KRENCO INC.

PER: _____

PER: _____
(affix corporate seal)

## SCHEDULE "N" TO CREDIT AGREEMENT

## OFFICER'S CERTIFICATE - EXCLUDED PREPAYMENT LETTERS OF CREDIT AND EXCLUDED PREPAYMENT LETTERS OF GUARANTEE

I, _____, being the _____ of Dreco Energy Services Ltd. (the "Borrower") hereby certify that:

1. I am authorized on behalf of the Borrower to deliver this certificate.

2. This certificate is delivered in accordance with Sections 7.7 and 8.7 of the credit agreement (the "Credit Agreement") dated as of August 30, 1991 and made among Royal Bank of Canada, the Borrower and certain other parties, as amended. Defined terms used in this certificate shall have the same meanings as in the Credit Agreement.

3. The status of the Excluded Prepayment Letters of Credit and the Excluded Prepayment Letters of Guarantee as at the end of _____, 199__ is accurately set out in Appendix 1 to this certificate.

4. The contracts described in Appendix 1 to this certificate are in good standing except as described below (insert details as to breach or the words "not applicable").

Dated at Edmonton, Alberta on the _____ day of _____, 199___.

_____
(signature of officer)

APPENDIX 1 TO OFFICER'S CERTIFICATE

| L/C or L/G Number | Expiry Date of L/C or L/G | Face Amount of L/C or L/G in U.S. Dollars | Face Amount of Contract in U.S. Dollars | Aggregate Value of Work Completed to end of Current Month in U.S. Dollars | Value of Work Completed During Current Month in U.S. Dollars | Unperformed Work Value in U.S. Dollars applicable to L/C or L/G | Estimated Date of Completion of Contract |
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Aggregate Amount of Non-Segregated Cash = U.S. $ _____

EXHIBIT 10.33

FORM 810 (11-90)

(USE WHEN DEPOSIT IS LOCATED IN CANADA, EXCEPT THE PROVINCE OF QUEBEC)

**COLLATERAL SECURITY AGREEMENT**

To: **ROYAL BANK OF CANADA**

and To: **ROYAL BANK MORTGAGE CORPORATION**

FOR VALUABLE CONSIDERATION, receipt whereof is hereby acknowledged,

[illegible] (full name of Assignor(s))

the "Customer") of [illegible] (full address of Assignor(s))

hereby agrees with the Royal Bank of Canada (the "Bank") as follows concerning the moneys now and hereafter on deposit with the Bank or, as the case may be, with Royal Bank Mortgage Corporation ("RBMC") for whom the Bank acts as agent, in the account or accounts described in Schedule "A" hereto and in any additional Schedule from time to time added hereto (the "Collateral Accounts") maintained pursuant to a deposit account agreement with the Bank or, as the case may be, RBMC, relating to the Collateral Accounts in the name of the Customer at the Bank's branch at

Insert name of branch

[illegible]

*Applicable only in P.P.S.A. Provinces

1. The Customer hereby assigns, transfers and sets over and grants a security interest in, to and in favour of the Bank, the moneys in the Collateral Accounts and said moneys shall be held by the Bank or, as the case may be, by RBMC for and on behalf of the Bank, together with any and all additions and accretions thereto, as general and continuing collateral security for the payment and fulfilment of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or not, of the Customer to the Bank whether arising within or outside Canada and whether arising from agreement or dealings between the Bank and the Customer or from any agreement or dealings with any third person by which the Bank may be or become in any manner whatsoever a creditor of the Customer or however otherwise incurred or arising, and whether the Customer be bound alone or with another or others and whether as principal or surety (such debts, liabilities and obligations the "Liabilities", including, without in any way limiting or restricting the generality of the foregoing, all debts, liabilities and obligations of the undersigned to the Bank arising out of or in respect of (a) any loans or advances heretofore or hereafter made by the Bank, (b) any letter of credit heretofore or hereafter issued by the Bank, and (c) any agreement or instrument or any endorsement thereon (a "Guarantee") heretofore or hereafter entered into by the Customer whereby the Customer guarantees the payment or fulfilment of debts or obligations of any other party (each and every such other party a "customer") to the Bank.

2. Whenever and so long as any Liabilities exist, the Bank will not be indebted or liable to the Customer in respect of the moneys now or hereafter on deposit in any Collateral Accounts. The Customer shall have no right to withdraw any moneys now or hereafter on deposit in the Collateral Accounts or to draw any cheques or drafts or other orders for the payment of money to be charged against the Collateral Accounts, or to assign, transfer or otherwise deal with such moneys now or hereafter on deposit in the Collateral Accounts, or any part thereof whenever and so long as any Liabilities exist.

3. If the Customer shall fail to pay or satisfy the Liabilities or any part thereof when due, or if a writ of execution or a garnishment or any similar or analogous writ, process or proceeding should be issued against or in respect of the Customer, or if the Customer should commit or threaten to commit any act of bankruptcy or make any assignment for the benefit of creditors, or if a receiver or other person with like powers should be appointed in respect of the Customer or if an encumbrancer should take possession of any of the properties or assets of the Customer then

upon the happening of any such event

(a) all the Liabilities shall, immediately prior to the happening of any such event, be and become immediately due and payable, (b) the Customer shall immediately be and become directly indebted and liable to the Bank as a principal debtor in respect of all Liabilities and obligations then existing or thereafter arising under or by virtue of each and every Guarantee, and (c) the Bank shall be entitled as and when it thinks fit and without prior notice to the Customer except as may be required by any applicable statute, and is hereby irrevocably authorized and empowered, to immediately apply all or any portion or portions of the moneys on deposit in the Collateral Accounts against and in reduction or extinction of all or any part or parts of the Liabilities, all as the Bank may see fit, and to debit the Collateral Accounts accordingly and for such purpose to direct RBMC to make all payments on any of the Collateral Accounts held with RBMC to the Bank, provided that if the Liabilities and the moneys on deposit in the Collateral Accounts are not in equal amounts, then the greater shall be extinguished only to the extent of the lesser and the excess shall remain owing and payable.

4 The Bank may grant time, renewals, extensions, indulgences, releases and discharges to, take securities which word as used herein includes other Guarantees), from and give the same and any or all existing securities up to, abstain from taking securities from or from perfecting securities of, cease or refrain from giving credit or making loans or advances to, accept compositions from and otherwise deal with any customer or other party and with all securities as the Bank may see fit, and may apply all moneys at any time received from any customer or other party or from securities upon such part of the debts or liabilities of such customer or other party to the Bank as the Bank deems best and change any such application in whole or in part from time to time as the Bank may see fit, the whole without in any way limiting or lessening the rights and powers of the Bank to hold and deal with the said moneys now and hereafter on deposit in the Collateral Accounts in the manner provided for herein.

5 No loss of or in respect of any securities received by the Bank from any customer or other party, whether occasioned by the fault of the Bank or otherwise, shall in any way limit or lessen the rights and powers of the Bank to hold and deal with the moneys now and hereafter on deposit in the Collateral Accounts in the manner provided for herein.

6 The Bank shall not be bound to exercise any of its rights or remedies against any customer or other party or in respect of any securities that it may at any time hold before being entitled to appropriate and apply all or any portion or portions of the moneys now or hereafter on deposit in the Collateral Accounts for the purpose and in the manner provided for herein.

7 In the event that at any time or from time to time the moneys on deposit in the Collateral Accounts are in a currency different from the currency of any of the Liabilities, then for the purposes of this agreement the rate of exchange between the currencies shall be the relative rate of exchange of the Bank in effect on the date of conversion.

8 Interest in the Collateral Account is subject to the provisions of this agreement.

9 This agreement and the security afforded hereby is in addition to and not in substitution for any other security now or hereafter held by the Bank and is a continuing security.

10 The Customer agrees to pay all costs, charges and expenses reasonably incurred by the Bank or, as the case may be, by RBMC whether directly or for services rendered (including reasonable solicitors' and auditors' costs, registration costs and other legal expenses) in operating the Customer's accounts, in preparing or enforcing this Collateral Security Agreement and all such costs, charges and expenses.

11 This agreement shall be governed by and construed in accordance with the laws of the Province of Canada in which the Collateral Accounts are located.

12 This agreement shall extend to and enure to the benefit of the Bank and as the case may be RBMC and their respective successors and assigns, and shall be binding upon the Customer and the heirs, executors, administrators, legal representatives and assigns of the Customer and each of them.

Applicable only if P.P.S.A. Province

13 The undersigned hereby acknowledges receipt of a copy of the agreement.

14. Notwithstanding Section 2 of this agreement, the Customer shall be entitled to withdraw any portion of the monies on deposit in the Collateral Accounts provided that:

(a) the Customer shall not be entitled to withdraw any monies on deposit in the Collateral Accounts which form part of the Segregated Cash (as defined in the credit agreement (the "Credit Agreement") dated as of August 30, 1991 and made among the Bank, Dreco Energy Services Ltd., The Dreco Group of Companies Ltd., Dreco Holdings Ltd., Dreco Holding Inc., Dreco, Inc. and Kremco Inc., as amended), without the prior written consent of the Bank;

(b) the Customer shall not be entitled to withdraw any monies on deposit in the Collateral Account which have been segregated and set aside in one or more separate bank accounts in accordance with Section 7.7(b) or Section 8.7(b) of the Credit Agreement except in circumstances where such monies have been released by the Bank in accordance with Section 7.7(d) or Section 8.7(d) of the Credit Agreement; and

(c) the Customer shall not withdraw any monies on deposit in the Collateral Accounts upon the occurrence and during the subsistence of an Event of Default (as defined in the Credit Agreement).

15. Notwithstanding Section 3 of this agreement, the Bank shall not be entitled to apply the monies on deposit in the Collateral Accounts against the Liabilities until an Event of Default (as defined in the Credit Agreement) has occurred and such Event of Default has not been remedied prior to the expiration of the applicable grace period (if any) set out in the Credit Agreement.

16. The Customer hereby irrevocably authorizes the Bank, from time to time, to insert in Schedule "A" to this agreement descriptions of one or more additional Collateral Accounts in circumstances where the Bank exercises the right described in Section 7.7(b) or Section 8.7(b) of the Credit Agreement.

IN WITNESS WHEREOF this agreement has been executed

under seal at Edmonton, Alberta this 6th day of March, 1992.

DRECO ENERGY SERVICES LTD.

PER: _____

PER: _____

(affix corporate seal)

363062

FORM 918 (11-89)

**SCHEDULE "A"**
**(COLLATERAL ACCOUNTS)**

TYPE OF ACCOUNT Canadian Current Account

ACCOUNT NUMBER 1055144

TYPE OF ACCOUNT U.S. Current Account

ACCOUNT NUMBER 400-120-2

together with such other Collateral Accounts as may be described, from time to time, in this Schedule "A" in accordance with Section 16 of the agreement to which this Schedule "A" is attached.